

Hawai‘i: A State in Political and Economic Transition

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Introduction

Hawai‘i’s economic recovery accelerated during 2013. Early estimates of revenues indicated a substantial surplus of \$844 million, leading Governor Abercrombie to submit an optimistic off-year budget adjustment request. His State of the State address in January of 2014, highlighted several issue priorities. These included funding for universal preschool, funding for the “Housing First” homelessness plan, tax relief for the elderly, and refilling special funds that had been raided in previous years. On the policy side, the governor asked for an increase in the minimum wage and a plan to move the outsourced prisoner population back in state (Abercrombie 2014).

During the 2014 legislative session revenue projections were revised downward and legislators became much less sanguine about funding new programs. The legislature significantly pared down Abercrombie’s new proposals while filling in lapses in capital improvements and maintenance. The final budget for FY 2015 came out largely similar to the biennial budget approved in 2013 in terms of total expenditures. With little funding for his initiatives, and having alienated many segments of his political base, the brash and combative governor found himself unseated by the end of 2014.

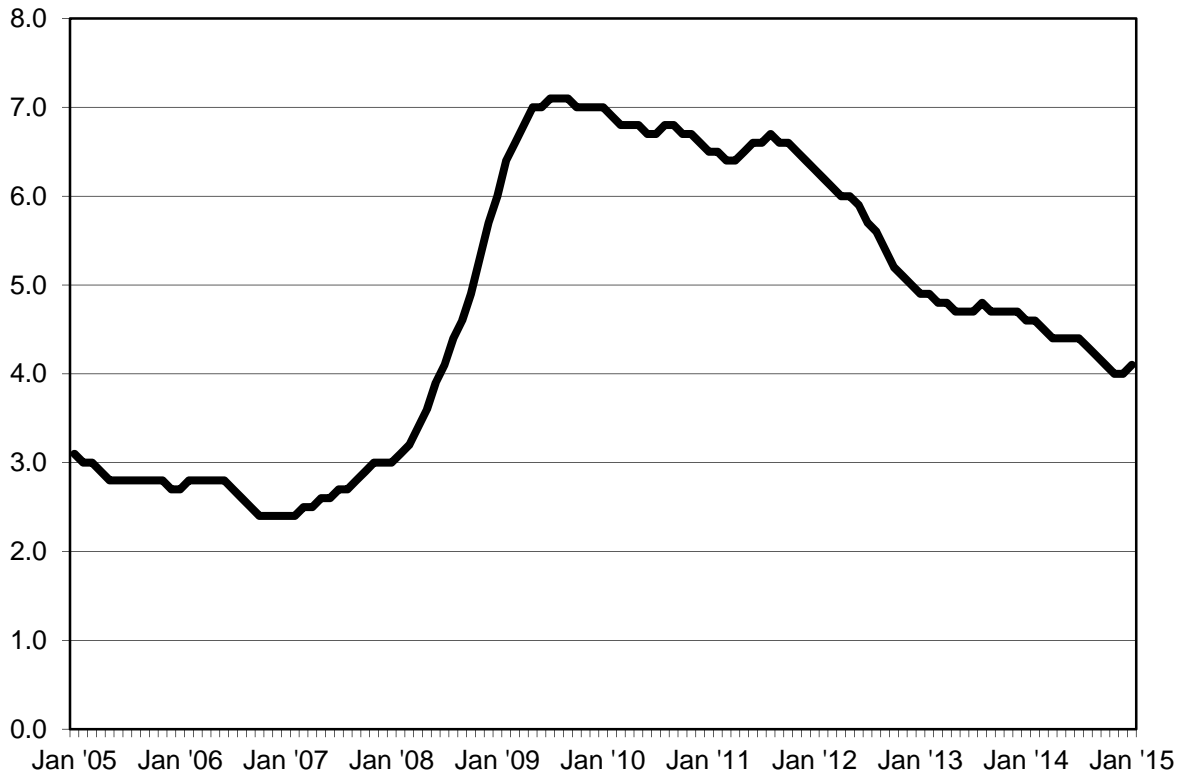
State of the Economy

Hawai‘i’s slow economic recovery following the Great Recession picked up steam in some sectors, but faltered in others throughout 2013. The state real estate market showed signs of complete recovery. In 2013, median home values on Oahu reached \$650,000, up from \$620,000 the prior year. This was the highest median price on record, beating out the 2007 record of \$643,500 (Gomes 2014). During the legislative session, economists from the University of Hawai‘i predicted state GDP to grow by 2.9 percent in 2014, up from 2.6 percent in 2013 (McAvoy 2014b). But the optimism was short lived as well as misplaced, as real GDP growth for 2014 was 2.1 percent (DEBDT 2015).

The unemployment rate gradually declined over the course of 2014 from 4.6 percent to 4.0 percent (see Figure 1). The rate had still not returned to the prerecession low numbers of about 2.4 percent. The outlook for income growth looked unpromising as personal income rose 2.8 percent over 2012, the smallest increase in three years (Yonan 2014).

Tourism is a main driver of the state economy, and while 2012 saw significant increases in tourism, the numbers were less impressive in 2013. In February of 2014, visitor arrivals were down 4.3 percent from the prior year, and visitors were spending \$3.30 less per day during their

Figure 1. Seasonally Adjusted Unemployment in Hawai'i by Month, January 2005 to January 2015



Source: BLS LU

stays (Schaefers 2014). Arrivals were particularly down among visitors from the western United States. Some attributed this to a significant uptick in shark attacks in 2013 (Prisco 2014).

Another main industry for the state is government employment, particularly in the military sector. Defense spending makes up 13.5 percent of the economy (Rucker and Goldfarb 2014). Hawai'i used to have the highest percentage of government employment in the nation, but slipped to third in recent years. Federal, state, or local government employees make up 27.8 percent of Hawai'i's workforce (Lauer 2013). The state trails Alaska and the District of Columbia in percentage of workforce in government and ranks third in union membership, with 22.1 percent of the workforce unionized (BLS 2014).

Demographics

Hawai'i's population growth has remained slow but steady. From 2012 to 2013, the population grew one percent to an estimated 1,404,054 (census.gov). The Hawaiian archipelago is characterized by varying population densities among the islands. The highest population is on O'ahu,

with 72.3 percent of state residents. The remaining residents live on “Neighbor Islands” of Hawai‘i (known as the “Big Island”), Maui, Moloka‘i, Lana‘i and Kaua‘i.

Politically, this divides Hawai‘i into two very different congressional districts: CD1 for downtown Honolulu, and CD2 for everywhere else. On the whole, population density in Hawai‘i is much greater than that of the rest of the United States (211.8 persons per square mile in Hawai‘i, compared to 87.4 for the US), which leaves little land available for housing, forcing up rents.

Hawai‘i has a much more diverse population than other states. “Asian only” comprises the largest ethnic group in Hawai‘i with over 37.5 percent of the population. Of the other groups, 23 percent identify as “Caucasian only,” 10.1 percent as “Hispanic/Latino only,” 10 percent as “Native Hawaiian/Pacific Islander only,” and a mere 2.5 percent identify as “Black/African American only.” Hawai‘i has a large population of individuals with mixed ethnicities—23 percent of the population identify as more than one ethnicity, compared to 2.5 percent among the US population (census.gov).

Although a bastion of multiculturalism, racial tensions often run high in the state, even in government. This session, a state house representative, Faye Hanohano, was reprimanded for rude and insensitive remarks made at the capitol. In a committee hearing on fishing, Hanohano berated a Caucasian university student testifying in support of a ban on shark fishing. Hanohano also made headlines for using local racial slurs against Caucasians (“haoles”), Japanese (“Japs”) and Chinese (“Pakes”) when frustrated that the artwork installed in her office at the Capitol did not come from native Hawaiian artists (DePledge 2014f). Hanohano’s remarks reflect a simmering undercurrent of racial tension in the state.

Political Composition of State Government

Hawai‘i’s political leadership has undergone a significant shakeup in recent years. In 2012, US Representative Mazie Hirono was elected to fill the seat of retiring US Senator Daniel Akaka, and Tulsi Gabbard replaced Hirono in the House, joining Representative Coleen Hanabusa.

In late 2013, longtime US Senator Daniel Inouye passed away, and Governor Abercrombie selected Lt. Gov. Brian Schatz to fill his seat. In 2014, Schatz was forced to defend the seat against Coleen Hanabusa, who challenged him in the Democratic primary. Prior to his passing, Senator Inouye conveyed his wish that Representative Hanabusa be chosen as his successor, giving her a claim on the seat as well as much needed political support. Ultimately, Schatz would pull off a slim victory and retain the seat.

Democrats have held vast majorities in both chambers of the state legislature for some time. In the 2012 elections, Democrats picked up an extra seat in the state House of Representatives, yielding a 44–7 majority. In the state Senate, Democrats retained an overwhelming 24–1 advantage. The lone Republican, Minority Leader and Floor Leader Sam Slom serves on all committees as the voice of the loyal opposition. The lack of party competition has given rise to cleavages within the Democratic Party on fiscal conservatism. Positions on these hot-button issues create factions within the Democratic Party (Pratt and Smith 2000).

Governor-Legislature Relationship

Despite his best efforts, Governor Abercrombie was not able to capitalize on the weak economic turnaround, maintaining flat job approval ratings in the 41–43 percent range from 2012

onward (see Figure 2). In 2014, Abercrombie faced a primary challenge for re-election from a powerful state senator, David Ige, chairman of the Senate Ways and Means Committee. While the primary election was not to be held until August, budget negotiations were tense. A \$444 million budget mistake came to light after the legislative session causing the governor to issue a line-item cut to the budget to reconcile it with a bond authorization bill (Blair 2014). The mistake ramped up tensions between Abercrombie and Senator Ige as the Democratic primary drew near.

In the 2014 session, legislators reported that the governor had been less visible at the legislature than in previous years (Borecca 2014b). Instead, the governor chose to hold a few meetings with House leaders. According to a legislative leader, Abercrombie avoided meeting with Ige, in order not to appear too political in his push for his preferred budget items (Borecca 2014b). The Abercrombie administration was frustrated by the legislature's preference to wait for a referendum on public funding of private preschool before acting.

Abercrombie would be soundly defeated by an overwhelming margin in the 2014 Democratic primary, losing to Ige by 66 to 31 percent. The loss was historic by both state and national standards. In Hawai'i, no sitting governor since statehood had been ousted in a primary. Nationally, the pattern has occurred in less than two percent of cases going back to 1984.

Governor Abercrombie took several positions that were clearly unpopular with the electorate. Foremost among them was a plan he floated to tax the pensions of retirees to balance the state budget. The plan generated a great deal of criticism and resentment. His support for a powerful Public Land Development Corporation (PLDC) generated intense resistance from the state's development-weary and ecologically minded population.

Abercrombie felt the public's wrath for the loss of the NFL Pro-Bowl. Loss of the game and its \$30 million in local revenue sent reverberations through the public in this shame-sensitive state. Finally, the governor's handling of a teachers' union contract garnered resentment from a union that had presumed he would be a strong ally and had backed him in 2010. Instead, the union backed Ige (Belt 2014).

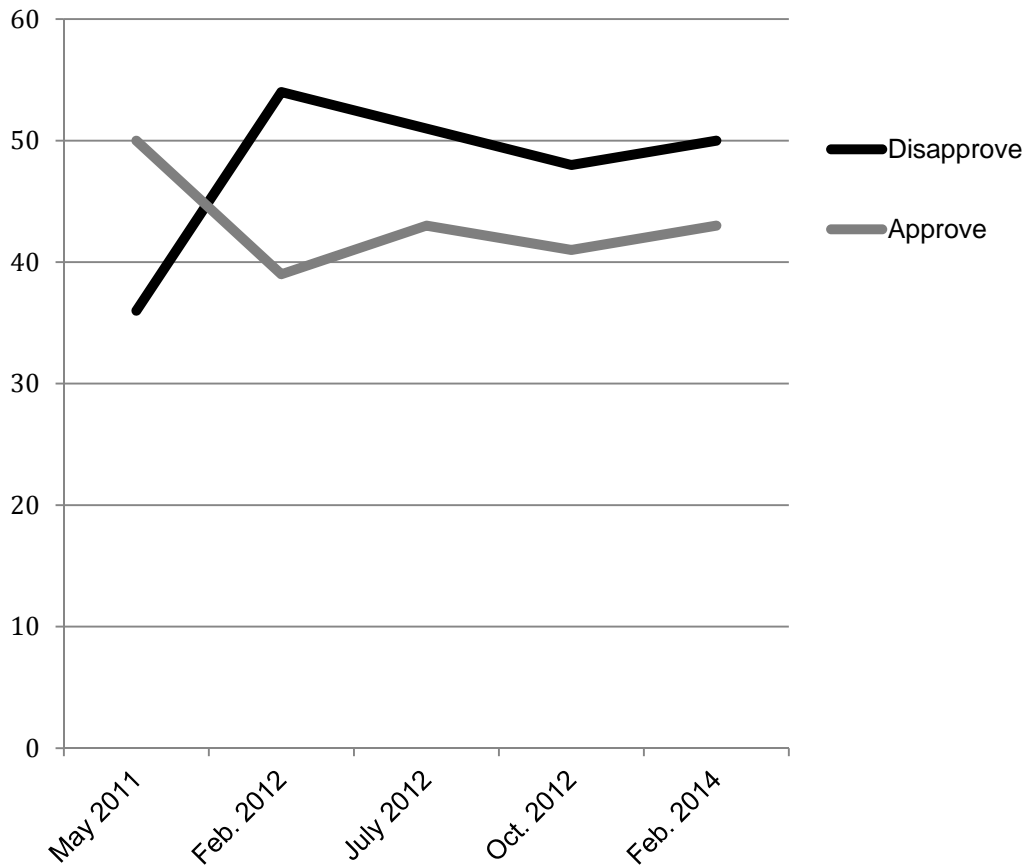
Major Issues

As the 2014 legislative session progressed, the legislature addressed several new, and some old, issues. Many promised to have a significant impact on the budget, while others were marginal. Unlike previous legislative sessions that featured numerous social issues, there were a minimal number of social issues distracting residents' attention from budgetary concerns.

The Counties and the Transient Accommodations Tax

At the opening of the 2014 legislative session, the mayors of all four of Hawai'i's counties converged on legislators to lobby for a greater slice of the state tax pie. In March, the House sent HB 1671 to the Senate, which would lift the cap of \$93 million of the Transient Accommodations Tax (TAT), which is essentially a hotel room tax. The cap was imposed to ease state budget woes during the recession, allowing the state to keep a greater share as revenue increased. A bill was passed and signed to increase the counties' share of the TAT for two years and established a working group to study future allocation arrangements.

Figure 2. Governor Abercrombie Job Approval



Source: DePledge 2014c.

Hawai'i Health Connector

The Hawai'i Health Connector (HHC), the website for Hawai'i's health care insurance exchange as part of the Affordable Care Act, was set up with the help of \$205 million in federal grants. In late November, the Connector executive director Coral Andrews resigned. The website had a two-week delay in opening and signed up only 257 people in its first month (Garcia 2013b). The HHC proved to be fiscally unsustainable, and in 2014 required \$15 million to operate but only took in an estimated \$1 million in fees (Consillio 2014a). In April of 2014, the US Government Accountability Office announced Hawai'i as one of a handful of states to have their insurance exchange investigated (Bussewitz 2014d).

One structural problem for the Health Connector is that only an estimated 100,000 residents lack health insurance, and half of those are expected to qualify for Medicaid, known as Med-Quest in Hawai'i (Consillio 2014a). As of March 22, 2014, the HCC said it was processing 22,000 applications for insurance, but fewer than 8,000 had successfully enrolled (Consillio 2014b). The legislature considered a tax on premiums and the use of general funds to raise \$15

million per year to make the Connector financially sustainable (HB 2529), but the measure failed in the Senate Ways and Means Committee.

Development

During the 2014 session, state legislators became worried that the uptick in development could cause Honolulu to grow too fast. The section of Honolulu known as Kaka‘ako had been slated for a massive development scheme by the Hawai‘i Community Development Authority (HCDA). The plan envisioned approximately 30 new residential high-rises (Pang and Kalani 2014), and the legislature introduced eight bills to better manage development of the area. One bill that became law (HB 1866) established legislative oversight of HCDA and imposed a height restriction. A measure that would have established building restrictions and mandated infrastructure requirements failed in the House Finance Committee.

Preschool and Kindergarten

Hawai‘i is one of 11 states without publicly funded preschool, and early childhood education was a big issue in the 2014 session (Pang and Kalani 2014). In 2013, the legislature agreed to a constitutional referendum regarding preschool that was to be placed on the ballot for the November 2014 election. The proposed amendment asked voters if public funds could be spent on private schools in order to ensure universal preschool capacity for the 18,000 four-year olds in the state. The referendum was defeated.

During the legislative session, Governor Abercrombie promoted a request for \$6 million in funding from the current legislative session to plan a pre-K program. To some lawmakers, the request was premature given the unknown status of the referendum, especially if the amendment was defeated (Kalani 2014a). Following the release of the governor’s budget, the Hawaii State Teachers’ Association reversed course and endorsed the governor’s plan (Kalani 2013). In early April, the American Civil Liberties Union filed suit against the plan for public funding of private preschool on constitutional grounds (Kalani 2014c). The case became moot as Abercrombie abandoned the plan.

In April, the legislature passed SB 2768, which mandated kindergarten for all children five years or older before July 31. Current state compulsory education begins at age six. Given expedited passage due to the imperative of beginning the policy with the 2014–2015 academic year (Kalani 2014d), the bill became law in early May, 2014.

Defense Dollars

The 2014 US National Defense Authorization Act contained \$400 million in construction for the islands as well as a review of the Joint POW/MIA Accounting Command (JPAC), which might be moved to the mainland due to interagency disputes and failures to identify missing service members (Cole 2013). JPAC’s central laboratory is at Joint Base Pearl Harbor-Hickam, but includes offices in Nebraska and Ohio. JPAC’s budget is \$89 million annually, and the loss would adversely impact Hawai‘i’s economy (Cole 2014). In terms of new defense dollars, in 2013 the Federal Aviation Administration chose the University of Alaska to conduct drone testing and Hawai‘i as one of its test sites.

Budget Process

The Hawai‘i State Legislature is composed of citizen legislators who meet for just over three months at the beginning of each year. According to the state constitution, the legislature convenes on the third Wednesday in January and meets for 60 working days. In 2014, the legislature convened on January 14 and adjourned *sine die* on May 1. If necessary, the legislative session may be extended by the governor or by each chamber’s presiding officers at the request of two-thirds of the members of each chamber (Pratt and Smith 2000).

The governor is required to prepare two budgetary proposals. These proposals are prepared by the Department of Budget and Finance. The first is the budget request, which is a biennial request in budget years and a supplemental request in off-years. Because FY 2015 is an off-year request, it reflects adjustments to the FY 2014–15 biennial budget. In addition to the budget request, the governor is required to prepare a six-year financial plan for the state. The state constitution requires a balanced budget. The fiscal year begins on July 1 and runs through June 30 of the subsequent year. The governor submits the budget 30 days before the legislative session convenes. The governor’s budgetary request reflects the needs of 17 departments, his/her office, the office of the lieutenant governor, and the University of Hawai‘i System.

The state House of Representatives acts on the budget request, and the budget bill is passed to the Senate. “First decking” is the date on which the budget must be passed out of the House Finance Committee so it can be voted on before moving to the Senate (this year it was March 10). The date on which bills are passed from one chamber to the other is called “crossover,” which occurred on March 12 for the budget (it occurs a few days earlier for other bills).

Once the budget reaches the Senate, it is referred to the Ways and Means Committee. “Second decking” for the budget to emerge from Ways and Means was March 27 this year. “Second crossover,” for the budget to proceed out of the Senate and to conference, was March 31. “Final decking,” for the bill to proceed out of conference and back to both chambers for final floor action, was April 25 (see Table 1 for the 2014 budget timeline). The budget passed in December 2013, and the governor submitted a \$12.0 billion supplemental budget for FY 2015, with an increase of \$283.8 million (Table 2 shows expenditures and adjustments). New adjustments to revenues included an estimated additional \$183 million in General Funds, \$165 million in Special Funds, \$91 million in Federal Funds, and \$19 million in Revolving Funds.

On the expenditure side, major increases were requested for the Departments of Business, Economic Development, and Tourism, (\$82 million), Education (\$32 million), Health (\$22 million), Human Services (\$121 million), Land and Natural Resources (\$26 million), Transportation (\$17 million), and the University of Hawai‘i (\$108 million). The Department of House and Senate on April 25. In June, a discrepancy forced the governor to line-item veto \$45 million in appropriations before the full budget became law (Lincoln 2014).

Executive Budget

In early December 2013, Governor Abercrombie announced that the prior fiscal year, which ended in June, had resulted in a record \$844 million budget surplus (DePledge, 2013g). The governor boasted that the surplus reflected a \$1.1 billion turnaround from the level of deficit when he took office (Abercrombie, 2013). The surplus resulted from increases in tax revenues, primarily from increases in tourism, as well as spending reductions from cuts to public workers (DePledge, 2014g). In his 2014 State of the State Address, Abercrombie proudly proclaimed, “I

Table 1. Hawai‘i State Budget Timeline, 2014 Session

Date	Action
Jan. 15	Budget Introduced in House
Mar. 5	Passed by House Finance Committee
Mar. 10	Reported by House Finance Committee
Mar. 12	Passed by House
Mar. 13	Received by Senate
Mar. 27	Passed Senate Ways and Means
Mar. 28	Reported by Senate Ways and Means
Mar. 31	Passed Senate
Apr. 25	Passed by Conference Committee
Apr. 25	Reported by Conference Committee
Apr. 29	Passed House and Senate
Apr. 29	Transmitted to Governor
Jun. 23	Signed by Governor with Line-Item Veto

am able to report to you our state government’s financial house now stands on solid ground” (Borrecca 2014a). In his speech, the governor highlighted his legislative priorities. These included tax relief for seniors, raising the minimum wage from \$7.25 to \$8.75, and increasing access to preschool (Abercrombie 2014).

Budget and Finance was to take a cut of \$52 million and the Department of Hawaiian Home Lands was to take a cut of \$156 million (although this was a correction to an erroneous allocation in the previous budget, see Table 2).

Not included in the operating budget is a request for an additional \$1.85 million in Capital Improvement Projects (CIPs), bringing the total CIP request to 2.7 million. Major Capital Improvement Projects (CIPs) proposed in the budget include airport upgrades, a building for the School of Pharmacy at the University of Hawai‘i at Hilo, and deferred maintenance on buildings at the University of Hawai‘i at Mānoa campus.

Legislative Budget

The House version of the budget (HB 1700) was based on revenue estimates that later came in \$478 million lower than expected for FY 2015—the turnaround trumpeted by Abercrombie had not appeared (DePledge 2014g). In the Senate, the Ways and Means Committee trimmed the budget by \$192 million, to \$12.1 billion for FY 2015. In doing so, the committee stripped \$280

Table 2. FY 2015 Governor's Budget and Adjustments

	Original Budget (\$ millions)	Budget Adjustments (\$ millions)
Accounting and General Serv.	201.0	4.8
Agriculture	45.1	5.4
Attorney General	69.5	7.4
Business, Ec. Dev., & Tourism	242.8	82.0
Budget and Finance	2,188.2	-26.0
Commerce & Consumer Aff.	53.0	3.7
Defense	111.6	4.4
Education	1,738.0	31.7
Charter Schools	68.1	5.3
Public Libraries	33.1	3.5
Governor	3.5	8.3
Hawaiian Home Lands	203.0	-155.6
Health	915.4	5.4
Hawaii Health Systems Corp.	608.0	22.0
Human Resource Develop.	20.7	0.3
Human Services	2,673.5	122.6
Labor & Industrial Relations	494.1	0.9
Land & Natural Resources	121.8	25.8
Lt. Governor	1.3	0.7
Public Safety	242.5	4.6
Taxation	27.1	1.1
Transportation	885.3	17.7
University of Hawaii	1,042.3	107.7
Total	11,988.9	283.7

Note: Slight discrepancy in Adjustments Total due to rounding

Source: DBF, 2013

million in capital improvement projects proposed by the governor, and prioritized funding for education, particularly for early childhood learning and the University of Hawai'i (Bussewitz

2014c). The Senate version was \$168 million less than the amount originally requested by the governor. The final operating budget came in at \$12.1 billion, with 2.3 billion in CIP spending through the issuance of general obligation bonds (see Table 3). Totals for the state's departments were largely similar to the governor's proposed budget, although slightly less than his request.

Reflections of Politics Elsewhere

In October 2013, Governor Abercrombie called a special session to consider legislation legalizing gay marriage. The Hawai'i marriage Equality Act (known as SB 1) generated lengthy debate in the House, where a committee permitted a week's worth of public testimony. The bill passed on November 12, and gay marriage became officially legal on December 2, 2013. Proponents hailed the gay marriage victory as an opportunity for the tourism industry.

Hawai'i has had its share of problems with the Affordable Care ACT. While the state has generally been supportive of the legislation, implementation of the state insurance exchange website—the Hawai'i Health Connector—has been inefficient. The state continues to debate ways to make financing of the Connector sustainable. The issue could force the state to prop up the exchange with monies from the general fund.

Taking a cue from Colorado and Washington, the state is again considering marijuana legalization for recreational use. Medical use is legal in Hawai'i, but recreational use is not. A poll taken in late 2012 showed a new majority in support of marijuana legalization. The poll found 57 percent of Hawai'i residents favored legalization, taxation and regulation of marijuana, compared to 37 percent in 2005 (Pang 2013). In February 2012, Governor Abercrombie wrote a letter to the Federal Drug Enforcement Administration supporting the reclassification of marijuana as a Schedule II drug, which would allow it to be prescribed by doctors and dispensed by pharmacists.

Bills to legalize marijuana have died in the past two legislative sessions. In the 2014 session, Representative Rida Cabanilla introduced a bill to study legalizing marijuana as an export crop (McAvoy 2014a). However, the bill failed due to legitimate concerns regarding the federal government's role in policing marijuana trafficking.

Summary/Conclusion

In all, the final budget came in slightly more conservative than Abercrombie's request due to the revised revenue forecast. In terms of operating budgets by department, allocations were relatively flat compared to the prior cycle, with no clear winners or losers in the process. The story was different in terms of CIPs. The University of Hawaii received an authorization of state bonds to complete one-quarter of the needed \$487 million maintenance backlog (Kalani 2014e). University officials continue to toy with the idea of raising tuition to cover the remainder.

Prior to signing the budget bill, the governor discovered it had exceeded the cap on general obligation bond borrowing. In order to bring the budget and bond authorization bills into balance, the governor used a line-item veto to cut \$45 million in bond spending for Department of Education facilities improvements (Bussewitz 2014g).

The budget gave Governor Abercrombie little to work with politically. His "New Day" initiatives were ignored or underfunded, denying him the ability to claim program victories. This, combined with his controversial plan to tax pensions (Belt 2012) and the fact that he had alienated many in his political base, gave Abercrombie the dubious distinction of being the first sitting governor in the state's history to fail to win his party's nomination for a second term.

Table 3. Comparing Budget Drafts

	Governor (\$ billions)	House (\$ billions)	Senate (\$ billions)	Final (\$ billions)
FY 2015	12.3	12.1	12.1	12.1
FY 2015 CIPs	2.7	2.4	2.0	2.3

Source: DePledge, 28 March 2014, DBF 2013, 2014

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